BARRIERS TO INTERNATIONAL TRADE OF LOGISTIC SERVICES

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BARRIERS TO INTERNATIONAL TRADE OF LOGISTIC SERVICES

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Introduction

Trade logistics encompasses an array of actions, from transportation, consolidation of cargo, warehousing, and border clearance to in-country distribution and payment systems. It is easy to notify that logistic services are significant part of international economy. In fact, demand of logistic services closely monitors the trends of international economy. One of the main reasons is because countries competition on international markets is limited by their production capacities and their ability to export national goods with lowest possible expenses and under condition that are requested by the customers. Most frequently consumers require more efficient and complete logistic services that include usage of information and communication technologies and multimodal transport operation where one logistic operator takes responsibility for the whole supply chain. That way, trade of logistic services has a great impact on international flows of goods and therefore on the intensity of national and international economic development. Existence of impediments to international flows of logistics services creates more difficulties in the overall trade of goods and they always have to be taken into account when trying to improve national economy competitiveness. Barriers to international trade of logistic services can occur in different forms as prohibitions or conditions that are hard to be met, then complex and opaque procedures and regulations as well as differences in national regulations in given area. They can be discriminatory or nondiscriminatory against foreign logistic services providers. If restrictions in logistic sector create disadvantages to foreign entities compared to domestic, as any limitations in national treatment for example, they are considered as discriminatory, but if these restrictions implies both domestic and foreign entities, they are considered as nondiscriminatory barriers.

This paper aims to contribute in identification of the barriers to international trade of logistics services. It is structured in four parts. First, a brief analyze of international trade of logistic services will be made so the value and structure of logistic services international flows can be shown. Then follows the introduction of the barriers to international trade of logistic services summarized in three main categories: (1) market access barriers, (2) national treatment barriers and (3) other barriers where quality of infrastructure, national law, cultural differences and others are included.

Overview of the trade of logistic services

When analyzing trade in logistic services we bare in mind that data on world export and world import of commercial services do not match, although theoretically they suppose to. Differences arise from the different data collecting systems, then from the way of making assessments, possibility of outflows when collecting certain data, irregular distributions of data etc. Usually, when analyzing international trade of services, export data are considered more relevant because it is easier to monitor smaller number of large exporters than the large number of small and larger importers.[1] Therefore, we will use export data for analyzing the international flows of logistic services.

Logistic services are set of activities that should be properly identified so a proper analysis of trade of logistic services can be made. Besides differences in data collection methodology in different statistical reports, also a correct identification of the activities that are considered as a part of logistic services can be a problem. Main reason is that these services are not categorized as a different services sector in United Nations Central Product Classification (UN CPC). Also, logistic services are not defined as a separate category of services under General Agreement on Trade in Services (GATS) Classification list W/120. Hence, for the purpose of our overview of logistic services trade we will use activities suggested in the Checklist of logistic services TN/S/W/20 as a part of the GATS proposal of the so-called group "Friends of Freight Logistics".

According to the Freight logistic checklist TN/S/W/20, logistic services are divided into 3 main categories as given in the table below:[2]

Table 1

Types of logistic services according to the Freight logistic checklist TN/S/W/20

Core freight logistic services	Services auxiliary to all modes of transport
Related freight logistic services	Freight transport services and other related logistic services
Noncore freight logistic services	Computer, management consulting services

Source: own review based on data taken from: WTO, Logistics services, TN/S/W/20, WTO, Geneva, 25 June 2004, pp.5-7

This way we have clear view of the activities that compose core and related logistic services. The analysis of the dynamics and value of the exports of auxiliary (logistics) transport services (core logistic services) and freight transport services (related logistic services), and their share in total exports of transport services will be made based on data contained in the reports for the Balance of payments published by the International Monetary Fund (IMF). Further data used in this part of the text, as growth rates, share or others, are our calculations made on the base of the data undertaken from IMF Balance of payments.

[1] This recommendation is given in almost every WTO statistical report.

[2] See: WTO, *Communication from Australia; Hong Kong, China; Liechtenstein; Mauritius; New Zealand; Nicaragua; Switzerland and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu, Logistics services, TN/S/W/20*, WTO, Geneva, 25 June 2004

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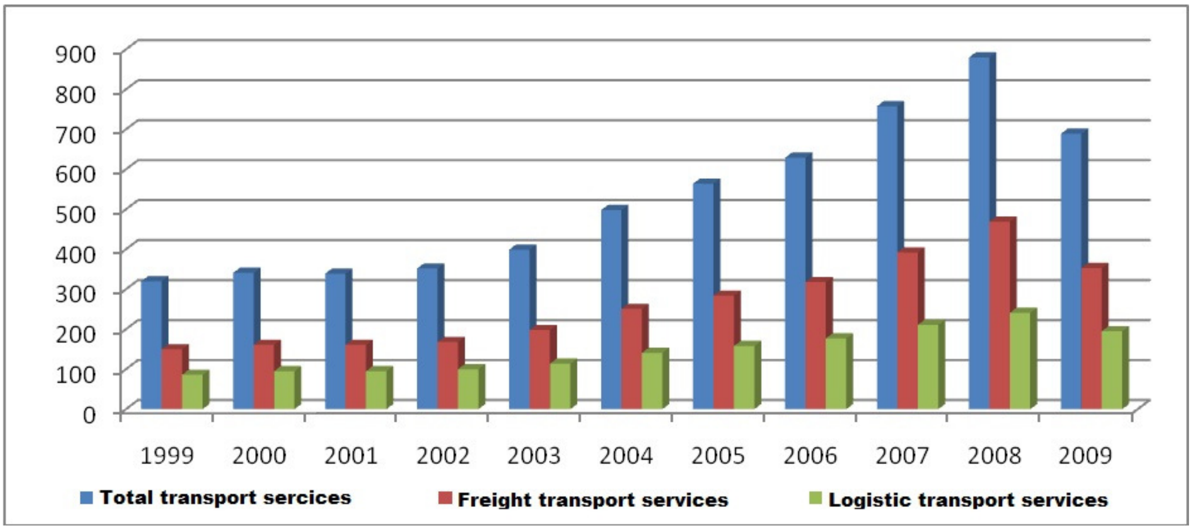

Graph 1. Value of the core and related freight logistic services export compared to the total transport services export in all transport modalities for the period 1999-2009, billions USD

Source: own interpretation of the data taken from the IMF, Balance of Payments Statistics Online, http://www2.imfstatistics.org/BOP/, 25.04.2011

Transport services have a constant growth the last decade. Average annual growth of total transport services in this period is 8%. Value of export reached over 890 billions USD before the world economic crisis in 2008. The 23% decline on the value of total transport services was registered in 2009 as a result of the decline of goods export. It affected on the demand of freight transportation services, especially maritime transport services that can be also seen from the Baltic dry index (BDI) fluctuations. This index provides an assessment of the price of moving the major raw materials by sea and changes according the total demand of the raw materials as coal, iron, ore and gain. BDI has reached record level in 2008 as a result of the increased demand of maritime transport services for the primary products, and declined 94% at the end of the year.[3]

Graph 1 explicitly shows that the trend of total transport services is followed by the freight transport services and auxiliary transport services in all transport modalities. It can be easily noticed that growth rate of freight transport services (related logistic services) is higher in 2003-2008 period. because of the increased international flow of goods and economic expansion of certain national economies, as China in a first place with incredible freight transport services export in the last decade. World economic crises has also an impact on freight transport services export that declined -24,7% in 2009 compared to 2008 which is more than the decline of the total transport services. The reason as we mentioned before is the decline of the international trade of goods. In fact, the main reason for total transport services export decline is found in the decreasing of freight transport services (related logistic services).

On the other side, nominal value of the export of auxiliary transport services in all transport modalities (core logistic services) has reached record level of 241 billion USD in

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[3] WTO, *International trade statistics*, WTO, Geneva, 2009, p. 115

2008. Average annual growth rate in the analyzed period before the crisis (1999-2008) is nearly 12%. This growth rate is very similar to the average annual growth rate of total transport services export that shows no changes of the share of auxiliary freight transport services export in total transport services export which is around 28%. The highest growth rate of the export of core logistic services, as seen in graph 1 is in the period 2003-2008 as a result of the increased international flow of goods. Decreased demand of freight transportation services in 2009 resulted with decline of the export of auxiliary transport services of 19,1% compared to 2008.

This brief overview shows tight correlation between international trade of goods and the trade in logistic services. Last decade is characterized with increased demand of logistic services and their bigger share in total services trade. Maritime freight transport and logistic services in maritime transport have a larger share in the structure of logistic services compared to railway, road and air transport. World economic crisis also had a great impact on the trade with core and related logistic services but latest WTO data and projections show increased international flow of goods that will eventually result with growth trade of logistic services. Considering the causal relation between economic growth, flow of goods and trade in logistic services, we can notify that increased flow of logistic services will provide better and more efficient flow of the goods. Eliminating barriers of trade will lead to essential improving of logistic services trade that will multiply the effects on the growth of international trade of goods and overall economic development.

Market access barriers

With respect to market access through the modes of supply identified in the GATS, each Member shall accord services and service suppliers of any other Member treatment no less favorable than that provided for under the terms, limitations and conditions agreed and specified in its Schedule.[4] Unlike the principle of national treatment where exact and clear definition for the barriers that may affect trade of services can not be found, market access principle considered in GATS is defined through the measures that impede market access. Such measures are: (a) limitations on the number of service suppliers whether in the form of numerical quotas, monopolies, exclusive service suppliers or the requirements of an economic needs test; (b) limitations on the total value of service transactions or assets in the form of numerical quotas or the requirement of an economic needs test; (c) limitations on the total number of service operations or on the total quantity of service output expressed in terms of designated numerical units in the form of quotas or the requirement of an economic needs test; (d) limitations on the total number of natural persons that may be employed in a particular service sector or that a service supplier may employ and who are necessary for, and directly related to, the supply of a specific service in the form of numerical quotas or the requirement of an economic needs test; (e) measures which restrict or require specific types of legal entity or joint venture through which a service supplier may supply a service; and (f) limitations on the participation of foreign capital in terms of maximum percentage limit on foreign shareholding or the total value of individual or aggregate foreign investment.[5]

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[4] WTO, *General Agreement on Trade in Services*, Part III, Article XVI, paragraph 1, online edition: http://www.worldtradelaw.net/uragreements/gats.pdf, 1994, p. 13.

[5] WTO, *General Agreement on Trade in Services*, Part III, Article XVI, paragraph 2, online edition: http://www.worldtradelaw.net/uragreements/gats.pdf, 1994, p. 13.

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Limitations provided in GATS article XVI that consider market access can be predicted and refer to any services sector including logistic sector, regardless the way services are provided. Measures undertaken by each WTO country member, and which have an impact on the logistic market access must be transparent and accessible to the other countries.[6] Table 2 presents some possible limitations to the access on the market of logistic services in accordance with the provisions in the GATS.

Table 2
Barriers to logistic services market access

Market access barriers defined in Article XVI of GATS	Examples for possible barriers or limitations in logistic sector
Limitations on the number of service suppliers whether in the form of numerical quotas, monopolies, exclusive service suppliers or the requirements of an economic needs test.	Limitation of licenses for new transport and logistics operators based on economic needs according population density.
Limitations on the total value of service transactions or assets in the form of numerical quotas or the requirement of an economic needs test.	Limiting the value of the logistic services provided by foreign logistic operators to a certain percentage of total value of logistic services provided by domestic operator.
Limitations on the total number of service operations or on the total quantity of service output expressed in terms of designated numerical units in the form of quotas or the requirement of an economic needs test.[1)]	Restrictions on transport operations in certain transport modalities that can be provided by a foreign logistic operator, or restriction on the number of logistic services that can engage foreign providers.
Limitations on the total number of natural persons that may be employed in a particular service sector or that a service supplier may employ and who are necessary for, and directly related to, the supply of a specific service in the form of numerical quotas or the requirement of an economic needs test.	Restriction on foreign labor force in logistic sector to a percentage of total labor force and limitations of the salaries to a percentage of total salaries in the logistic sector.
Measures which restrict or require specific types of legal entity or joint venture through which a service supplier may supply a service	Limiting the organizational form of the foreign logistic operator that allows market access only through joint ventures with domestic logistic operator.
Limitations on the participation of foreign capital in terms of maximum percentage limit on foreign shareholding or the total value of individual or aggregate foreign investment.	Limiting foreign capital in domestic logistic company to a certain percent of company's value.

[1)] Does not cover measures of a Member which limit inputs for the supply of service

National treatment barriers

Principle of national treatment to foreign services or foreign services providers is defined as a treatment equal to that granted to domestic services and domestic services providers.[7] The main difference between national treatment principle in international trade of

[6] WTO, *General Agreement on Trade in Services*, Part II, Article III, online edition: http://www.worldtradelaw.net/uragreements/gats.pdf, 1994, p. 5.
[7] Biljanoska J.., *International trade – theory, policy, practice*, FTU Ohrid, 2005, p. 159

goods and international trade in services is that the barriers related to this principle in services sector refers to both the service (product) and the service provider, while in the case of the trade of goods refers only to the product.[8] Another difference is that GATS Article XVII does not distinguish between tax and other regulatory measures and third, GATS Article XVII does not contain a reference to "directly competitive products", but only to "like" services and service suppliers.[9]

Formally identical or formally different treatment shall be considered to be less favorable if it modifies the conditions of competition in favor of services or service suppliers of the Member compared to like services or service suppliers of any other Member.[10] This means that part of the barriers to trade of logistic services according GATS are certain limitations in national treatment of foreign logistic operators and foreign logistic services. Those limitations are not clearly defined and no specific list of these barriers is established. In accordance of GATS these barriers include all measures that formally or in practice give less favorable treatment to foreign logistic services and foreign logistic providers. Barriers to national treatment of foreign logistic operator can be considered, for example, when domestic logistic operators have special treatment when awarding licenses for some logistic activities. Also, there are national treatment barriers when foreign logistic providers must meet criteria residency due to the issuing a license for providing logistic services. According the conducted research of the United States International Trade Commission (USITC), there are 26 countries[11] out of total 220 involved in the survey with barriers to national treatment when issuing licenses for providing certain logistic activities.[12] There is also discriminatory treatment on foreign logistic providers considering transparency and access to some information on the regulative in the certain national economies. USITC has identified 13 countries[13] with such barriers in national treatment out 228 involved in the survey.[14]

Logistic operators that refer to existence of barriers to international trade of logistic services related to national treatment must prove that the country does not act in accordance to the obligations that has undertaken in their Schedule of specific commitments. The foreign operator must also show that the measure predicted for foreign operators is less favorable than

[8] See: WTO, *General Agreement on Tariffs and Trade (GATT 1947)*, Part II, Article III, online edition: http://www.worldtradelaw.net/uragreements/gatt.pdf, 1994, p.6 and WTO, *General Agreement on Trade in Services*, Part III, Article XVII, online edition: http://www.worldtradelaw.net/uragreements/gats.pdf, 1994, p.5.

[9] See: WTO, *Determining "likeness" under the GATS: Squaring the circle?*, Staff Working Paper ERSD-2006-08, WTO, Geneva, 2006, p. 5.

[10] WTO, *General Agreement on Trade in Services*, Article XVII, paragraph 3, online edition: http://www.worldtradelaw.net/uragreements/gats.pdf, 1994, p.14.

[11] Australia, Brazil, Canada, Chile, Chine, Ecuador, El Salvador, France, Hong Kong, India, Indonesia, Italy Japan, Republic of Korea, Malaysia, Mauritius, Mexico, Philippine, Russia, South Africa, Taiwan, Thailand, Ukraine, Great Britain, Venezuela and Viet Nam.

[12] USITC, *Logistic services: An Overview of the Global Market and Potential Effects of Removing Trade Impediments, Investigation No. 332—463*, Publication 3770, USITC, Washington DC, 2005, table 3-3, p. 3-18

[13] Canada, China, Ecuador, Hong Kong, Italy, Japan, Republic of Korea, Mexico, Singapore, Taiwan, Thailand, Turkey and Viet Nam.

[14] USITC, *Logistic services: An Overview of the Global Market and Potential Effects of Removing Trade Impediments, Investigation No. 332—463*, Publication 3770, USITC, Washington DC, 2005, table 3-5, p. 3-21

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the one predicted for domestic logistic services or domestic logistic operators which has an impact on international trade of logistic services.[15]

Other barriers

Besides differences in national treatment of foreign logistic suppliers and various limitations in logistic services market access, there are some other barriers to trade of logistic services that outcome from the quality of infrastructure, different national regulative or cultural differences.

Quality and price of logistic services and therefore competitiveness of logistic operators highly depend on transport infrastructure, information and telecommunication technologies. Fast transfer of the goods is determined of the quality of continental, air and maritime transport network and ports as well as possibility for storage and warehousing and cargo handling services. Modern logistic operators use highly developed communication systems and information technologies that provide fast and unlimited transfer of information (for example there are different electronic systems for tracking the shipments) and flow of logistic services that can reduce operating costs and improve speed and quality of goods delivery. These are the reasons why every country should improve transport infrastructure and introduce modern information and telecommunication technologies, so barriers in logistic services sector will be reduced and country competitiveness on international logistic market will be improved.

As mentioned before, barriers to trade of logistic services can be considered differences in national regulation between countries like differences in the regime and regulation of the flow of goods or services supply. Rules that are applied for export and import of the goods as inefficient, discriminatory and nontransparent customs policy can be treated as barriers in supplying logistic services. Also, the lack of homogeneity and standardization of administrative procedures and insufficient administrative cooperation between the countries as a result of unsatisfactory countries mutual trust can be also considered as a barrier to logistic services suppliers. Different countries have diverse regulations for submitting the documents required in international trade on goods, which certainly affects on the way of provision of logistic services by logistic operators. Lack of security of the electronic systems or the impossibility for electronic fill and submission of the documents to the competent authorities is also a limitation when providing logistic services. Then instruments of trade policy that countries imply are also barriers in providing logistic services. These include nontransparent, slow and expensive licensing procedures or inspections, then the types and possibilities for paying for the services, or the audits that may occur after clearance of the goods for example, etc. Regarding regulations as barriers in supplying logistic services can be also considered differences in pension systems, salaries, insurance, taxation and monopolized provision of some logistic services (ex. Government postal and courier services). Exclusivity in supplying certain logistic services is a limitation to other domestic or foreign logistic operators to compete on the market.[16]

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[15] See: WTO, *Understanding The WTO: Settling Disputes*, online edition: http://www.wto.org/english/thewto_e/whatis_e/tif_e/disp1_e.htm, 18.12.2010

[16] Hollweg C., Wong M-H., *Measuring regulatory restrictions in logistic services*, ERIA, Jakarta Pusat, 2009, pp.8-13

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Other additional barriers to trade of logistic services can be both corruption and the possibility of certain criminal activities related to the organization of delivery or receiving the goods, which depend on the efficiency of the legal and judicial system of the country. Also, as additional barriers can be treated cultural differences that determine consumer's behavior which can cause difficulties in logistic services supply. Then, language barriers can affect on institutions communication and also may impact on logistic services provision. For example, they can be treated as an obstacle when trying to provide some administrative requests like necessity to translate the documents from an official translator, notary certification of the documents, etc. In many cases, political relations between countries can be a factor that can impact on their mutual cooperation and can cause some limitations on the flow of goods and services, so these can be also considered as barriers to international trade of services.

Conclusion

Now we can easily conclude that there is a high demand for logistic services in the last decade. Importance of logistic services supply is that it is the best way to improve the international flow of goods and to reduce the costs of trade. Eliminating barriers to international trade of logistic services is essential to country competitiveness on international market and country's economic development. As we have seen in this text, there are various limitations that affect the scope, price and quality of trade in logistic services. So if a country is willing to improve its efficiency in international trade and thus to experience grater economic progress, it has to make an effort to identify all the barriers that impact the logistic sector and gradually eliminate them. Not only eliminating these barriers can be considered as a priority, but also crating a climate where no other new barriers will be involved. Yet, during this process countries always have to consider and practice some level of protection of the sectors that are their national interest.

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